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ABSTRACT

A guide to designing a course in international finance and multinational corporations is presented. It offers a rationale for such a course, discusses its primary goals, suggests two possible course orientations (professional or theoretical) and desirable or necessary prerequisites, and recommends specific course content areas and subareas. Types of materials appropriate to the professional and theoretical orientations are noted. (MSE)

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TEACHING METHODOLOGIES AND COURSE CONTENTS IN INTERNATIONAL FINANCE

by

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TEACHING METHODOLOGIES AND COURSE CONTENTS IN INTERNATIONAL FINANCE

Rationale for the course:

For years the subject of international business finance was neglected because it seemed remote. It was regarded as a subject only for those who were directly affected, or for specialists who were required to master a profound, complex and esoteric subject. These assumptions have been demonstrated to be invalid. The subject is not remote. The world is continuing to shrink in size and business is becoming global. Virtually every manufacturing and service industry in the United States is involved in some form of international business today.

With the breakdown of the fixed exchange rate system, the world economy is now subjected to a new era of fluctuating exchange rates. Knowledge of the operation and mechanics of foreign exchange markets is critical for any business manager to be successful in this day and age. Furthermore, the volume of international transactions has grown enormously since the end of World War II. U. S. exports now account for about 10% of gross national product. For both Canada and United Kingdom, this figure exceeds 25%. Similarly, annual capital flows between the United States and other countries involve hundreds

of billions of dollars. International investment and trade of this magnitude is not possible without the understanding of foreign exchange markets.

In recent years, there has been an increasing globalization of the financial markets. This has created a niche for investment banking firms to operate in a global market place. In addition, foreign investors remain major participants in the U.S. financial markets. The U.S. Treasury Department statistics suggest that foreigner have been a net purchasers of U.S. stocks and bonds, including the increased interest in corporate rather than government securities (see Table 1). As per Federal Reserve data, foreigners own 4.7% of the total market value of U.S. equities. This is the largest percentage ownership ever; in 1952, the first year for which the data are available, the percentage of 2.0%.

In todays economy, the multinational corporation (MNC) has become a norm rather than an exception. Many large U.S. corporations derive more than 20% for their revenue and income from abroad. Also, many U.S. corporation have substantial involvement in international financial markets, on the borrowing and/or investing sides; despite of their limited involvement in manufacturing and distribution.

Given the emergence of multinational corporations, the

globalization of financial markets, and the complexities of foreign exchange markets; the need to internationalize the tools of financial analysis become apparent. A course in International Finance would provide a conceptual framework within which a finance manager can analyze key financial decisions affecting his or her firm.

This paper outlines teaching methodologies and contents for a course in the area of International Finance as it applies to the functioning of multinational corporations. The unprecedented growth of multinational business activity in the past several decades has made it necessary for finance managers to acquire skills to make decisions for global enterprises.

Goal of the course:

The primary focus of the course should be to examine the functioning of a multinational enterprise operating in an international environment. The course should be geared towards students and executives who are likely to confront the international dimensions of corporate financial management. The underlying theme for such a course is to adopt financial management concepts useful in one country context to the additional variables and constraints prevalent in the international environment.

Course Orientation:

The course can be oriented, in its emphasis, to be either "professional" or "theoretical." The distinction is not as clear as one might like to have. It should only be understood in terms of the primary emphasis which an instructor is willing to place in order to better suit the combined needs of the students and the program.

For the course to be "professionally" oriented, it would be geared towards meeting the needs of students or business executives who are or will be employed by multinational firms. The course would primarily emphasize problem solving approach while learning the techniques of international financial management.

For the course to be "theoretically" oriented, it would be primarily emphasizing model building, testing various hypotheses, examining theories of foreign exchange forecasting, testing the efficiency of foreign exchange markets etc. Under this orientation, the emphasis would be more on reviewing recent scholarly research.

Course Prerequisites:

In order for the course to be most meaningful, students

should have the background knowledge of an introductory course in Corporate Finance. A course in International Trade and Economics is desirable but not mandatory.

Course Contents:

The course contents should provide a smooth transition from macroeconomic orientation to the microeconomic one. Students should be made familiar with the firm's international environment and the topics such as international monetary system, balance of payments accounting, determination of foreign exchange rates under alternative systems etc. Some of this material may overlap with the contents of a course in International Economics, but their treatment is essential to the international financial manager.

The rest of the course content may run parallel to the topical sequence to the one generally found in a business finance text. In doing so, one is essentially extending the financial decision making process to an international setting. The following list of topics suggest typical course contents for a course in International Finance:

1. Introduction: The Multinational Firm and Multinational Financial Management.

2. Environment of International Financial Management:

   (1) The International Monetary System
   (2) Balance of Payments Accounting
   (3) The International Debt Problem
   (4) The Foreign Exchange Markets

3. Foreign Exchange Risk Management:

   (1) Forecasting Exchange Rate Changes
   (2) Measuring Foreign Exchange Exposure
   (3) Managing Foreign Exchange Exposure

4. Foreign Investment Analysis:

   (1) Corporate Strategy and Foreign Investment Decision
   (2) Capital Budgeting for Multinational Corporation
   (3) The Measurement and Management of Political Risk

5. Financing Foreign Operations:

   (1) International Financial Markets

(2) The Cost of Capital for Foreign Investments

(3) International Banking

(4) Import and Export Financing

(5) Designing a Global Financing Strategy

6. Multinational Working Capital Management and Control:

(1) Multinational Current Asset Management

(2) International Performance Evaluation and Control

(3) Comparative Accounting and Financial Statement Analysis

(4) International Tax Planning

Teaching Strategy:

If the course is taught with a "professional" orientation, the instructor may wish to supplement the text book with cases. A number of good text and case books are now available. Alternatively, if the course is designed to be taught with a "theoretical" orientation, the instructor may wish to supplement the text with a book of readings or assign selected readings from recent literature (see Appendix A).

Table 1

NET PURCHASES OF U.S. SECURITIES BY FOREIGN INVESTORS

(Billions of U.S. Dollars)

Year	Equities	Corporate Bonds	U.S. Treasury Notes and Bonds
1982	$3.9	$ 1.8	$17.5
1983	5.4	0.9	5.8
1984	-2.9	11.9*	21.5
1985	4.9	39.8	29.2
1986(P)	18.6	43.5	24.3

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* 1984 was the first year to include Eurodollar issue.

(P) Preliminary estimate

Source: U.S. Department of Treasury

APPENDIX A

POSSIBLE TEXTS FOR A COURSE IN INTERNATIONAL FINANCE

Abdullah, Faud A., Financial Management for a Multinational Firm, Englewood Cliffs, New Jersey: Prentice Hall, Inc., 1987.

Eiteman, David K. and Arthur Stonehill, Multinational Business Finance, 4th ed. Reading, Mass.: Addison-Wesley Publishing, 1986.

Levi Maurice, International Finance: Financial Management and the International Economy, New York: McGraw-Hill, 1983.

Kim, Suk H., International Business Finance, Reston, Va.: Reston Publishing, 1983.

Rodriguez, Rita M., and E. Eugene Carter, International Financial Management, 3rd ed. Englewood Cliffs, N.J.: Prentice-Hall, 1984.

Shapiro, Alan C., Multinational Financial Management, 2nd ed. Boston: Allyn & Bacon, 1986.

POSSIBLE COLLECTION OF SUPPLEMENTAL THEORETICAL READINGS

Donald R. Lessard, editor, International Financial Management: Theory and Application, Second Edition, New York: John Wiley & Sons, 1985.

Abraham M. George and Ian H. Giddy, editors, International Finance Handbook, Volumes 1 and 2, New York: John Wiley & Sons, 1983.

POSSIBLE COLLECTIONS OF SUPPLEMENTAL CASES

Carlson, Robert S. et.al., International Finance: Cases and Simulation, Reading, Mass.: Addison-Wesley Publishing Co., 1980.

Dufey, Gunter and Ian H. Giddy, 50 Cases in International Finance, Reading, Mass.: Addison-Wesley Publishing Co., 1987.